UNITED STATES OF AMERICA
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-0001

Periodic Reporting   Docket No. RM2023-4
(Proposal One)

COMMENTS OF THE ASSOCIATION FOR POSTAL COMMERCE
(March 10, 2023)

Pursuant to Order No. 6441, the Association for Postal Commerce ("PostCom") submits these comments on the Postal Service's Proposal One, which would revise its pricing for flat-shaped USPS Marketing Mail pieces with piece and pound price components by using a pricing structure based primarily upon pieces rather than one based upon pounds.

The Commission and the Postal Service have struggled for years to address cost and service issues relating to flats, which ultimately resulted in a Congressional mandate to report on efforts to improve. Solutions have been elusive, in part because there are numerous issues at play. At the same time, the Postal Service is in the early stages of the largest network transformation in at least ten years according to the Delivering for America Plan. This is not the time for the Postal Service to propose a radical rethinking of dropship incentives that would affect millions of pieces of Marketing Mail Flats, and the Commission should reject Proposal One. Further, Proposal One suffers from numerous deficiencies over and above the destabilizing effect it would have in an already challenged operating environment.

Unlike typical proposed changes in analytical principles, which endeavor to update studies or improve the accuracy of cost data, the sole discernible purpose of Proposal One is to facilitate compliance with passthrough requirements as codified in 39 CFR §§ 3030.283 and 3030.284. The proposal will in no way improve the accuracy of cost information and will in fact

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result in less efficient price signals, reduce incentives for worksharing, and harm mailers who send heavier weight Marketing Mail Flats, solely for the goal of regulatory convenience.

Indeed, the Postal Service's petition makes no mention of the effect that this change will have on existing customers. Nor does the Postal Service claim that its proposed changes will improve price signals or increase efficiency in any way. Simulated postage statements provided by PostCom members indicate that, were the Postal Service's proposed structure approved, some mailers of heavier-weighted pieces would face rate increases, while others might see rate reductions. *See* PostCom Exhibit One, appended. Such arbitrary outcomes in service of regulatory compliance are textbook examples of unreasonable ratemaking. The Commission should reject Proposal One for the reasons explained below.

Flattening of Dropship Incentives

Under Proposal One, the per-pound prices for Marketing Mail Flats that exceed the four ounce breakpoint would be uniform for all entry points, while per-piece prices for all weights would vary by entry point. *See* Proposal One at 12, 13. In explaining the benefits of Proposal One, the Postal Service cites only its ability to comply with Commission regulations without having to request a waiver. There are no claims that the new structure would better reflect underlying costs or improve efficiencies because such claims would be at odds with empirical evidence. In fact, the hypothetical rates provided by the Postal Service imply that weight does not affect transportation costs, when in fact freight costs vary directly with weight.

Presented with the rate structure used in the Postal Service's proposal, mailers would have a greatly diminished financial incentive to enter Marketing Mail Flats anywhere but at origin. *See* PostCom Exhibit 2, appended. As is well understood, marketing mail flats entered at origin receive a level of service performance far below the Postal Service's standards. Mailers hoping to avoid a serious service penalty by entering their mail closer to destination would then

be forced to pay much higher rates. As the example appended illustrates, this specific customer's savings from drop-shipment would be reduced by more than $100K for a mailing of fewer than 500K pieces. *See* PostCom Exhibit 3, appended.

To some extent, mailer responses to the proposed structure will depend on prevailing conditions in the freight market because mailers are charged by the pound to transport pieces to USPS facilities. In some cases, mailer adjustments could result in additional costs incurred by the Postal Service. For instance, a mailer with a detached mail unit that decides to shift from destination entry to origin entry could result in additional personnel and/or transportation costs incurred by the Postal Service.

Some mailers may instead elect to avoid punitive rate increases by lowering the weight of pieces. The Postal Service does not appear to have undertaken any analysis of the revenue and/or operational impact that its proposal will have on mailer behavior, further illustrating how thinly supported Proposal One is.

The Solution Is Not to Dumb Down Rates

As PostCom has noted in comments on several Annual Compliance Reports, application of workshare passthrough requirements at an unnecessarily granular level creates the potential for rate anomalies and rate instability as the Postal Service attempts to react to changes in cost estimates. Proposal One illustrates this dilemma perfectly as the sole motivation for this proceeding is to comply with a reporting requirement, irrespective of any real harm that may result.

The Postal Service could have, and should have, chosen an approach other than excessively re-averaging rates in ways that will produce negative effects of unknown magnitude. Given the uncertain impact that Proposal One will have on mailers, the Postal Service should

have instead requested a rulemaking to examine alternative methods for evaluating workshare passthroughs.

Summary

Analytical principle changes have the potential to improve rate efficiency and transparency when used to refine cost estimation methods. Proposal One does no such thing and in fact will make rates for Marketing Mail Flats less efficient as they will be less reflective of underlying cost differences. Proposal One reflects an unfortunate attempt to abandon complexity for regulatory expediency that will make the rate structure for Marketing Mail flats worse. The Commission should reject Proposal One and may consider initiating a rulemaking to examine alternative approaches to determining passthrough compliance for rate structures that incorporate weight and piece elements. To ensure the Postal Service will not be negatively impacted in the meantime, the Commission should preemptively grant a waiver that would enable the Postal Service to develop rational rates.

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Respectfully submitted,

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PostCom Exhibit 1

Effect of Postal Service Proposal One On Sample Mailings

PostCom Exhibit 1
Effect of Postal Service Proposal One On Sample Mailings
Entry Point Held Constant

Mailing	Pieces	Lbs/piece	Total Pounds	Total Postage Current Structure	Total Postage Proposed Structure	% Change	Entry Discount NDC	Entry Discount SCF	Entry Discount Origin
Job A	40,765	0.611	24,887	$ 35,925	$ 35,925	0.0%	90%	3%	7%
Job B	149,652	0.457	68,391	$ 66,086	$ 63,382	-4.1%	2%	97%	1%
Job C	70,242	0.630	44,252	$ 38,835	$ 37,312	-3.9%	2%	98%	0%
Job D	12,976	0.657	8,524	$ 6,114	$ 5,999	-1.9%	8%	89%	3%
Job E	100,557	0.522	52,491	$ 33,030	$ 33,424	1.2%	0.5%	99%	0.5%
Total	374,192		198,545	$ 179,990	$ 176,042	-2.2%			

PostCom Exhibit 2

Effect of Postal Service
Proposal One On
Dropship Incentives

PostCom Exhibit 2
Effect of Postal Service Proposal One On Dropship Incentives
Aggregate Entry Point Postage and Discounts For Illustrative Purposes

Postage At Existing Rates

	Origin	All NDC	All SCF
Job A	$ 42,698.50	$ 35,829.68	$ 33,648.43
Job B	$ 84,343.90	$ 68,884.42	$ 65,775.48
Job C	$ 51,209.52	$ 40,962.01	$ 38,758.70
Job D	$ 8,728.20	$ 6,546.21	$ 5,965.91
Job E	$ 45,936.83	$ 36,322.83	$ 33,020.73

Postage Under Proposal One

	Origin	All NDC	All SCF
Job A	$ 38,097.54	$ 35,447.81	$ 34,757.60
Job B	$ 75,445.73	$ 65,717.96	$ 63,173.49
Job C	$ 43,048.86	$ 38,483.13	$ 37,289.01
Job D	$ 7,019.08	$ 6,038.30	$ 5,962.41
Job E	$ 41,659.54	$ 35,124.57	$ 33,415.42

Dropship Discounts at Existing Rates

	All NDC	All SCF
Job A	$ 6,868.82	$ 9,050.07
Job B	$ 15,459.48	$ 18,568.42
Job C	$ 10,247.51	$ 12,450.82
Job D	$ 2,181.99	$ 2,762.29
Job E	$ 9,614.00	$ 12,916.10

Dropship Discounts Under Proposal One

	All NDC	All SCF
Job A	$ 2,649.73	$ 3,339.94
Job B	$ 9,727.77	$ 12,272.24
Job C	$ 4,565.73	$ 5,759.85
Job D	$ 980.78	$ 1,056.67
Job E	$ 6,534.97	$ 8,244.12

Change In Discounts

	All NDC	All SCF
Job A	$ (4,219.09)	$ (5,710.13)
Job B	$ (5,731.71)	$ (6,296.18)
Job C	$ (5,681.78)	$ (6,690.97)
Job D	$ (1,201.21)	$ (1,705.62)
Job E	$ (3,079.03)	$ (4,671.98)

Incentive Per 100 lbs at Existing Rates

	All NDC	All SCF
Job A	$ 27.60	$ 36.36
Job B	$ 22.60	$ 27.15
Job C	$ 23.16	$ 28.14
Job D	$ 25.60	$ 32.41
Job E	$ 18.32	$ 24.61

Incentive Per 100 lbs Under Proposal One

	All NDC	All SCF
Job A	$ 10.65	$ 13.42
Job B	$ 14.22	$ 17.94
Job C	$ 10.32	$ 13.02
Job D	$ 11.51	$ 12.40
Job E	$ 12.45	$ 15.71

% Change in Incentive

	All NDC	All SCF
Job A	-61.4%	-63.1%
Job B	-37.1%	-33.9%
Job C	-55.4%	-53.7%
Job D	-55.1%	-61.7%
Job E	-32.0%	-36.2%

PostCom Exhibit 3

Simulated Customer
Response to USPS
Proposal One

PostCom Exhibit 3
Simulated Customer Response to USPS Proposal One

R2023-1 Rate Structure					Jul-22
TITLE:		Customer A			
ISSUE:		Catalog A			
7/10/2022-1/21/2023					

					USPS Jul 2022 - Rates
TOTAL POSTAGE BY PRESORT:	Pieces	Rate	% of Pcs		
ECR Saturation:	0	x $0.261	0.00%	$	0.00
ECR High Density Plus:	0	x $0.275	0.00%	$	0.00
ECR High Density:	0	x $0.320	0.00%	$	0.00
ECR Carrier Route - Basic:	0	x $0.390	0.00%	$	0.00
AUTO FLAT 5 Digit:	0	x $0.530	0.00%	$	0.00
AUTO FLAT 3 Digit:	0	x $0.684	0.00%	$	0.00
PRST 5 Digit:	0	x $0.611	0.00%	$	0.00
PRST 3 Digit:	0	x $0.736	0.00%	$	0.00
AUTO FLAT ADC:	0	x $0.782	0.00%	$	0.00
AUTO FLAT Mxd ADC:	0	x $0.854	0.00%	$	0.00
PRST ADC:	0	x $0.800	0.00%	$	0.00
PRST Mxd ADC:	0	x $0.881	0.00%	$	0.00
Total Pieces Presort	0	Sub-Total:		$	0.00
		IMB Discount	$0.003	$	0.000
		Postage Non Drop Shipped:		$	0.00

# of Pieces	Piece Weight
479,405	0.9294

TOTAL POSTAGE BY WEIGHT:				$	477,401.31
TOTAL POSTAGE BY PRESORT:	Pieces	Rate	% of Pcs		Postage
ECR Saturation:	0	x $0.091	0.00%	$	0.00
ECR High Density Plus:	0	x $0.105	0.00%	$	0.00
ECR High Density:	0	x $0.150	0.00%	$	0.00
ECR Carrier Route - Basic:	35,391	x $0.171	7.38%	$	6,051.86
AUTO FLAT 5 Digit:	313,446	x $0.258	65.38%	$	80,869.07
AUTO FLAT 3 Digit:	120,624	x $0.412	25.16%	$	49,697.09
PRST 5 Digit:	5,085	x $0.339	1.06%	$	1,723.82
PRST 3 Digit:	4,418	x $0.464	0.92%	$	2,049.95
AUTO FLAT ADC:	134	x $0.510	0.03%	$	68.34
AUTO FLAT Mxd ADC:	241	x $0.582	0.05%	$	140.26
PRST ADC:	9	x $0.528	0.00%	$	4.75
PRST Mxd ADC:	57	x $0.609	0.01%	$	34.71
Total Pieces Presort	479,405	Sub-Total:		$	618,041.16
		IMB Discount	$0.003	$	1,409.508
		Postage Non Drop Shipped:		$	616,631.65

Containerization Discount	Pieces				
*Saturation:	0	x $0.007		$	0.00
*High Density Plus:	0	x $0.010		$	0.00
High Density	0	x $0.012		$	0.00
Basic	33	x $0.022		$	0.73
Total Container Discount				$	0.73

Proposal One Rate Structure					Proposed Rev1
TITLE:		Customer A			
ISSUE:		Catalog A			

					USPS February 2023 - Prpsd
TOTAL POSTAGE BY PRESORT:	Pieces	Rate	% of Pcs		
ECR Saturation:	0	x $0.276	0.00%	$	0.00
ECR High Density Plus:	0	x $0.292	0.00%	$	0.00
ECR High Density:	0	x $0.339	0.00%	$	0.00
ECR Carrier Route - Basic:	0	x $0.409	0.00%	$	0.00
AUTO FLAT 5 Digit:	0	x $0.529	0.00%	$	0.00
AUTO FLAT 3 Digit:	0	x $0.683	0.00%	$	0.00
PRST 5 Digit:	0	x $0.610	0.00%	$	0.00
PRST 3 Digit:	0	x $0.735	0.00%	$	0.00
AUTO FLAT ADC:	0	x $0.781	0.00%	$	0.00
AUTO FLAT Mxd ADC:	0	x $0.853	0.00%	$	0.00
PRST ADC:	0	x $0.799	0.00%	$	0.00
PRST Mxd ADC:	0	x $0.880	0.00%	$	0.00
Total Pieces Presort	0	Sub-Total:		$	0.00
		IMB Discount	$0.003	$	0.000
		Postage Non Drop Shipped:		$	0.00

# of Pieces	Piece Weight
479,405	0.6794

TOTAL POSTAGE BY WEIGHT:				$	245,333.68
TOTAL POSTAGE BY PRESORT:	Pieces	Rate	% of Pcs		
ECR Saturation:	0	x $0.276	0.00%	$	0.00
ECR High Density Plus:	0	x $0.292	0.00%	$	0.00
ECR High Density:	0	x $0.339	0.00%	$	0.00
ECR Carrier Route - Basic:	35,391	x $0.409	7.38%	$	14,474.92
AUTO FLAT 5 Digit:	313,446	x $0.529	65.38%	$	165,812.93
AUTO FLAT 3 Digit:	120,624	x $0.683	25.16%	$	82,386.19
PRST 5 Digit:	5,085	x $0.610	1.06%	$	3,101.85
PRST 3 Digit:	4,418	x $0.735	0.92%	$	3,247.23
AUTO FLAT ADC:	134	x $0.781	0.03%	$	104.65
AUTO FLAT Mxd ADC:	241	x $0.853	0.05%	$	205.57
PRST ADC:	9	x $0.799	0.00%	$	7.19
PRST Mxd ADC:	57	x $0.880	0.01%	$	50.16
Total Pieces Presort	479,405	Sub-Total:		$	514,724.38
		IMB Discount	$0.003	$	1,409.508
		Postage Non Drop Shipped:		$	513,314.87

Containerization Discount	Pieces					
Saturation:	5DGT	0	x $0.007		$	0.00
High Density Plus:	5DGT	0	x $0.010		$	0.00
High Density	5DGT	0	x $0.012		$	0.00
Basic CRT	5DGT	33	x $0.022		$	0.73
Total Container Discount					$	0.73

DROPSHIP DISCOUNTS:

DDU		Discount/Pc			Discount
Pieces HD - SAT:	0	x $0.080	0.00%	$	0.00
Pieces CR-RT to CR-RT 5dg	0	x $0.069	0.00%	$	0.00
SCF					
Pieces HD - SAT:	0	x $0.061	0.00%	$	0.00
Pieces CR-RT to CR-RT 5dg	0	x $0.067	0.00%	$	0.00
Pieces Auto/Non ADC to 5Dgt	0	x $0.091	0.00%	$	0.00
NDC					
Pieces HD - SAT:	0	x $0.046	0.00%	$	0.00
Pieces CR-RT to CR-RT 5dg	0	x $0.056	0.00%	$	0.00
Pieces Auto/Non MXD to 5Dgt	0	x $0.069	0.00%	$	0.00
Total Drop Ship Pieces:	0	**Sub-Total Drop Ship Discounts:**		$	0.00

DROPSHIP DISCOUNTS:

DDU		Discount/Pc			Discount
Pieces HD - SAT:	0	x $0.093	0.00%	$	0.00
Pieces CR-RT	0	x $0.093	0.00%	$	0.00
SCF					
Pieces HD - SAT:	0	x $0.082	0.00%	$	0.00
Pieces CR-RT	0	x $0.082	0.00%	$	0.00
Pieces Auto/Non ADC to 5Dgt	0	x $0.082	0.00%	$	0.00
NDC					
Pieces HD - SAT:	0	x $0.065	0.00%	$	0.00
Pieces CR-RT	0	x $0.065	0.00%	$	0.00
Pieces Auto/Non MXD to 5Dgt	0	x $0.065	0.00%	$	0.00
Total Drop Ship Pieces:	0	**Sub-Total Drop Ship Discounts:**		$	0.00

DROPSHIP DISCOUNTS:

DDU		Discount/Lbs			Discount
Pieces HD - SAT:	0	x 0.322	0.00%	$	0.00
Pieces CR-RT to CR-RT 5dg	0	x 0.276	0.00%	$	0.00
SCF					
Pieces HD - SAT:	0	x 0.246	0.00%	$	0.00
Pieces CR-RT to CR-RT 5dg	33,544	x 0.271	7.00%	$	8448.39
Pieces Auto/Non ADC to 5Dgt	399,513	x 0.364	83.34%	$	135151.94
NDC					
Pieces HD - SAT:	0	x 0.183	0.00%	$	0.00
Pieces CR-RT to CR-RT 5dg	1,809	x 0.226	0.38%	$	379.96
Pieces Auto/Non MXD to 5Dgt	40,957	x 0.276	8.54%	$	10505.75
Total Drop Ship Pieces:	475,823	**Sub-Total Drop Ship Discounts:**		**$**	**154,486.05**

Sub Total Postage:			$	462,144.88
Promotional Discount:	3.00%		$	13,864.35
Total Current Postage:			$	448,280.53

DROPSHIP DISCOUNTS:

DDU	0	Discount/PCS			Discount
Pieces HD - SAT:	0	x 0.093	0.00%	$	0.00
Pieces CR-RT	0	x 0.093	0.00%	$	0.00
SCF					
Pieces HD - SAT:	0	x 0.082	0.00%	$	0.00
Pieces CR-RT	33,544	x 0.082	7.00%	$	2750.61
Pieces Auto/Non ADC to 5Dgt	399,513	x 0.082	83.34%	$	32760.07
NDC					
Pieces HD - SAT:	0	x $0.065	0.00%	$	0.00
Pieces CR-RT	1,809	x $0.065	0.38%	$	117.59
Pieces Auto/Non MXD to 5Dgt	40,957	x $0.065	8.54%	$	2662.21
Total Drop Ship Pieces:	475,823	**Sub-Total Drop Ship Discounts:**		**$**	**38,290.46**

Sub Total Postage:			$	475,023.68
Promotional Discount:	3.00%		$	14,250.71
Total Current Postage:			$	460,772.97